

STATE-OWNED ASSET MANAGEMENT REFORM IN CHINA

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ABSTRACT

This paper addresses management of state-owned assets controlled and used by administrative units and public institutions. Briefly touching on the problems and driving forces that contribute to state-owned asset management reforms in China, the paper examines the contents of state-owned asset management and goals and objectives Chinese government attempts to fulfill. The paper also analyzes the legal framework and institutional setup of state-owned asset management in China. Moreover, this paper explores the characteristics of asset management practices from perspectives of information system, asset acquisition, holding, and disposition, financial accounting report, and supervision and legal obligations. The paper ends up by identifying the pressing problems of Chinese government in managing the state-owned assets and the plausible solutions to obtain efficiency and effectiveness of asset management.

INTRODUCTION

Chinese government owns tremendous amounts of state-owned assets.¹ These assets are managed for distinct purposes. Generally, public assets are classified into three categories: state-owned assets for businesses controlled by state-owned enterprises (SOEs), non-operational state-owned assets controlled by administrative units and public institutions, and state-owned natural resources that can be exploited to generate economic value. Currently, state-owned assets

are respectively under the administration of the State-Owned Assets Supervision and Administration Commission (SASAC), the Ministry of Finance (MOF), and the Ministry of Land and Resources (MLR) at the state level and their relevant agencies at subnational levels. This paper addresses management of non-operational state-owned assets in administrative units and institutions. For one thing, state-owned assets in administrative units and institutions, as an indispensable section of public assets in China, involve the distribution of public resources and government procurement of public assets. For another, it is a world trend to seek maximum value potential of public assets to reduce the cost and improve efficiency and effectiveness of public management.

State-owned assets controlled and used by administrative units and institutions are in a variety of forms. The total value of state-owned assets controlled by government at different levels was roughly \$1,177.6 billion in 2007. It was approximately 168 percent of total government revenue (\$701 billion) the same year (MOF, 2009). After subtraction of liability, the total net asset value in administrative units and institutions was \$762.3 billion, which accounts for about one third of total net asset value of national state-owned assets. How to manage the huge amounts of state-owned assets and improve their value in government administration is an issue that Chinese government has to deal with. In the beginning years of 2000s, management of state-owned assets in administrative units and institutions embraced six major problems (MOF, 2006). These problems included incomplete and inaccurate asset inventory; unfair allocation of assets among agencies and institutions; lack of strict supervision over utilization and evaluation of state-owned assets; inefficient and inappropriate utilization of state-owned assets; inappropriate disposal of property assets; and serious losses of assets due to conversion of property rights and inappropriate asset management. These problems are often found in different phases of state-owned asset management. Chinese government has to reform state-owned asset management to effectively solve these problems.

Apart from the urge to solve the problems, a number of driving forces contribute to public asset management reform in China. First

of all, the conception of new public management has permeated government management in China. New Public Management emphasizes improved performance, efficiency, and effectiveness through reforming organization and operation forms and improving accountability and transparency in government operation (Osborne & Gaebler, 1992; Kaboolian, 1998; Hood, 1995; Barzelay, 2000; Kearns, 1996; Kettle & Milward, 1996; Pollitt & Bouchert, 2000). These fundamental principles are consistent with requirement of Chinese government on state-owned asset management since the mid-1990s. Secondly, a series of public financial reforms, such as government agency budgeting, centralized revenue collection and expenditure, government procurement, and two-line management of revenue and expenditure, require that state-owned asset management be reformed to conform to new financial measures. Thirdly, the policies of Chinese government to regulate and supervise the use of public assets and curb power abuse of government budgeting entities call for reform of state-owned asset management. Overall, these driving forces work together to catalyze reforms of state-owned asset management in administrative units and institutions.

This paper intends to focus on five specific dimensions. One dimension is on strategic views of public asset management, including definition and classification of state-owned assets, mission and objectives of state-owned asset management, and the major contents of state-owned asset management in administrative units. A second dimension is an analysis of legal and institutional frameworks of state-owned asset management. A third dimension delves into state-owned asset management practices that are implemented in reforms in Chinese administrative units and public institutions. A fourth dimension analyzes models that have been established in state-owned asset management at different levels of government in China. Last but not least, the paper identifies pressing problems of Chinese government in state-owned asset management, and provides plausible solutions to improve efficiency and effectiveness of state-owned asset management.

STRATEGIC VIEWS OF PUBLIC ASSET MANAGEMENT

Definition and Classification of Public Assets

Assets can be defined from different perspectives. From an accounting perspective, the International Accounting Standards Board defines asset as “a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.”² Similarly, the Financial Accounting Standards Board defines assets as “probable economic benefits obtained or controlled by a particular entity as a result of past transactions or events.”³ Based on these two definitions and several others, like UK Statement of Principles for Financial Reporting, the IASB proposed a working definition of an asset as “a present right, or other access, to an existing economic resource with the ability to generate economic benefits to the entity” (IASB, 2005, p. 2). This definition emphasizes three characteristics of assets: 1) a right or other access, which means an aspect of control and excludes other’s access; 2) economic resource that has value and is scarce; and 3) “the ability to generate economic benefits,” which is the same as the ability to produce favorable cash flows. It is important to note that asset is not necessarily associated with ownership because on the balance sheet, assets equal equity plus liabilities, where equity is equivalent to net asset (Gauthier, 1997). In the public sector, an asset is a public resource that is controlled by government; it is not mainly used for pecuniary purposes, but for generating public services and public goods.

Central government of different countries defines their public assets in accordance with their legal and administrative systems. Chinese government defines state-owned assets as all assets and asset rights that the state owns, including all kinds of investments and relevant proceeds, appropriation, donation received, and all assets and asset rights that are obtained by state authority or in accordance with laws (MOF, 2008, p. 7). In China, state-owned assets in administrative units and institutions are the total of all kinds of economic resources that are legally owned by the state, controlled and utilized by administrative units and public institutions, and that can be measured by money value.⁴ This definition identifies three characteristics of state-owned assets in administrative units and institutions. One is assets as economic resources, which provide a physical foundation for administrative units and institutions to deliver public services.

The second is measurement of money value. The third is assets controlled and used by a government agency or an institution that is not permitted to directly run enterprises. Besides, assets are assigned to administrative units and institutions as free goods. They are expended and fretted until their retirement. Moreover, state-owned assets in administrative units and institutions are not mainly used to generate profits, but to help implement missions and goals of the entity that uses the assets. Therefore, the entity does not need to take into account the cost and straight-line depreciation of the assets being utilized for service delivery and public good production.

State-owned assets are classified into fixed assets, current assets, and intangible assets in administrative units and institutions.⁵ One special property asset in China is land. Usually considered as fixed asset in other countries, land in China is a public property that cannot be purchased and sold. But its using right can be transferred with financial compensation. Land using right as a symbol of land is an intangible property asset. However, state organs that use land for construction do not need to pay for user fees. Transfer of land using right must be approved by government at different levels.⁶

Public Asset Management Framework

Builta (1994, p.83) defines asset management as “the process of maximizing value to a property or portfolio of properties from acquisition to disposition.” This definition discloses the purpose of property asset management in private businesses. It also points out one way of management that can be followed in the public sector. Generally, public asset management is primarily a process of making and implementing decisions regarding the acquisition, use, disposition of public assets to maximize government efficiency and asset value, and minimize the cost of asset utilization so as to effectively accomplish the government’s planned objectives (Kaganova, McKellar, & Peterson, 2006; Hentschel & Utter, 2006).

Public asset management is a systematic combination of a variety of components. These components relate to every phase of asset management and constitute a public asset management framework. Over the past twenty years, government of some western countries,

like Australia, France, Canada, and New Zealand, has taken measures to reform their public property asset management. Different as their reform measures are, these countries have addressed some similar issues in their reform of property asset management. These issues encompass policy, cost of asset ownership, information systems, centralization and decentralization of management responsibility, management accountability, and privatization (Conway et al, 2006; Kaganova, 2008). Actually, these issues are key components of asset management reform framework. A comprehensive system of public asset management consists of more specific components. These components mainly include laws and regulations, inventory and information system, acquisition, asset registration, disposition, financial reporting, organization, technology, strategic review, and accountability (Fernholz & Fernholz, 2007; JFMIP, 2000). Within this system, components of management are interdependent and combine to serve the functions of public asset management.

In China, state-owned asset management is considered as a means by which government fulfills its missions and goals. Both “Interim Methods of State-owned Asset Management in Administrative Units” and “Interim Methods of State-Owned Asset Management in Public Institutions” require that the contents of state-owned asset management in administrative units and institutions revolve around asset allocation, utilization, disposition, valuation, ownership definition, mediation of ownership dispute, ownership registration, inventorying assets, accounting report, and supervision. These elements are based on laws and regulations and depend on effective institutional setup. Therefore, laws and regulations, institution, and the elements of asset process management mentioned here are the principal components that constitute the framework of state-owned asset management.

Compared with the framework for reform measures (Conway et al, 2006; Kaganova, 2008) and comprehensive system of public asset management (Fernholz & Fernholz, 2007; JFMIP, 2000), Chinese framework of state-owned asset management intends to address the problems (previously discussed in “Introduction”) in asset management reform, and institutionalize asset management in

administrative units and public institutions the countrywide. Therefore, the Chinese asset management framework reflects initial efforts of reform on the one hand, and provides guidelines for asset management operation on the other hand. Taking into account essential components, the framework is established with Chinese characteristics. However, since asset management involves many relevant fields, a number of deep-rooted problems in accounting, finance, traditional conception of public property asset as free good, accountability, and institutional construction remain unsolved in the establishment of state-owned asset management. Some of these problems are address in the last section of this paper.

Goals and Objectives

According to Kaganova & Nayyar-Stone (2000), the goals of public property asset management can be generally classified into two categories: traditional and non-traditional. The traditional goal is to supply appropriate properties for producing public goods and delivering services at the least cost based on market valuation (also see Fernholz & Fernholz, 2007, p.14). The non-traditional goals include supporting economic development regarding property use and disposal. They usually focus on productive asset use, or disposal of surplus property, or capital investment (Simons, 1994; Fernholz & Fernholz, 2006).

Real property management in the public sector defines its objective as promoting efficient and economic use of government-owned real property assets (GAO, 2008). It functions as a mechanism to equitably allocate certain public resources, while exerting very little effort to produce cash revenue (Simons, 1993, 1994). In addition, real property management may intend to generate social returns to its constituency despite the difficulty to quantify the rate of social return (Simons, 1993, 1994).

In China, state-owned assets in administrative units cannot be used for long-term investment. Administrative units cannot establish enterprises to run business for profits.⁷ “Interim Methods of State-Owned Asset Management in Administrative Units” stipulates that the mission of state-owned asset management encompasses four

major cornerstones. The first one is to establish and improve rules and regulations on asset management. The second one is to promote rational allocation and efficient use of state-owned assets. The third cornerstone is to guarantee that state-owned assets are utilized for appropriate purposes and safeguarded from loss. The fourth cornerstone is to supervise management of state-owned assets in the economic entities that have not been disconnected from administrative units so as to multiply the value of state-owned assets. These cornerstones encompass both long-term goals and short-term objectives of state-owned asset management. They set up targets for asset management. Furthermore, acquisition of property assets involves large-scale procurement. It may serve as a mechanism by which government supports particular industrial enterprises according to procurement policies.

LEGAL AND INSTITUTIONAL FRAMEWORKS OF STATE-OWNED ASSET MANAGEMENT

A Changing Legal Framework of State-Owned Asset Management

The Constitution of People's Republic of China requires that public assets are sacred and inviolable; and that the state protects public assets and prohibits appropriation or damage of public assets by any organization or individual by whatever means (Article 12, Chapter One). The Constitution provides legal basis for enacting laws and regulations regarding how to acquire, use, and dispose of public assets, especially property assets.

With respect to acquiring public assets, administrative units and public institutions abide by Budget Law of People's Republic of China, Government Procurement Law (GPL), and Tendering and Bidding Law. In accordance with Budget Law, administrative units and public institutions compile the drafts of their own budgets and final accounts, submit budgetary revenues, manage the budgetary expenditures, and accept supervision of the relevant departments of the State (Article 18). In addition, GPL requires that while drafting budget for next fiscal year, administrative units and institutions shall include the items to be procured and the funds needed in budget and

submit the budget to the department of finance at the same level of government for compilation; the budget shall be examined and approved in accordance with budgetary administration procedures (Article 33). In correspondence with these mandates, “Interim Methods of State-Owned Asset Management in Administrative Units” (Article 14) and “Interim Methods of State-Owned Asset Management in Public Institutions” (Article 15) require that administrative units and public institutions propose names, quantity, and fund of the items to be procured and submit the proposal to the department of finance for approval. The approved purchasing program is included in the budget compiled for next year. Moreover, items that are included in government procurement catalogue shall be purchased through institutions for centralized procurement (Article 7, GPL). The purpose of this requirement is to acquire state-owned assets at lower price, with high efficiency, and of high quality.

“Interim Methods of State-Owned Asset Management in Administrative Units” and “Interim Methods of State-Owned Asset Management in Public Institutions” (named respectively as Ministerial Order 36 and Ministerial Order 37) are intended to regulate and enhance state asset management and improve use effects of state assets. Since no law has ever been passed to regulate the management of state-owned assets in administrative units and institutions, the two ministerial orders currently have the supreme authority on state-owned asset management except for elements specified in particular laws. Ministry of Finance has enacted relevant regulations to implement these two orders. Sub-national governments have enacted specific measures on the management of state assets under their control. The major laws and regulations regarding state-owned asset management are listed in Table 1.

Table 1: State-Owned Asset Management Laws and Regulations

Laws & Regulations	Issuance Time	Issued By
Budget Law of PRC	March, 1994	NPC
Government Procurement Law of	June, 2002	NPC

PRC		
Tendering and Bidding Law of PRC	August, 1999	NPC
Interim Methods of State-Owned Asset Management in Administrative Units	May, 2006	MOF
Interim Methods of State-Owned Asset Management in Public Institutions	May, 2006	MOF
Interim Asset Verification Methods in Administrative Agencies and Public Institutions	April, 2007	MOF
Interim Asset Inventorying Methods in Administrative Agencies and Public Institutions	December, 2006	MOF
Interim Methods of Asset Disposal and Leasing Revenue Management in Administrative Units of Central Government	October, 2009	MOF
Interim Methods of State-Owned Asset Management in Departments Directly Under Central Government	December, 2007	MOF
Interim General Asset Allocation Methods for Agencies of Central Government	September, 2007	GOAB
Financial Rules for Administrative Units	January, 1998	MOF
Financial Rules for Public Institutions	January, 1998	MOF

Accounting Regulations for Administrative Units	January, 1998	MOF
Accounting Regulations for Public Institutions	January, 1998	MOF

* This table is formulated by the authors of this paper.

It should be noted that state-owned asset management is still in a tentative period of time in China. The legal and regulatory framework will constantly change to satisfy specific needs of public asset management. The regulatory framework of state-owned asset management is illustrated in detail in Appendix 1.

State-Owned Asset Management Principles

State-owned asset management relates to various arrays of public budgeting and finance. In China, reform of the budgeting system has not satisfied the requirement of public finance in effectively allocating and efficiently expending public resources for public good production and public service delivery. Cash-based accounting report reinforces the perception of consumption rather than perception of outputs and outcomes; it also fails to reflect the portfolio of public asset throughout public needs.

Considering the current environments of public budgeting and finance in China, MOF has identified four asset management principles in both “Interim Methods of State-Owned Asset Management in Administrative Units” (Article 6) and “Interim Methods of State-Owned Asset Management in Public Institutions” (Article 4). These principles include 1) combining asset management with budgeting; 2) combining asset management with financial management; 3) combining physical asset management with value management; and 4) separating ownership from using right.

Traditionally, public asset management is disconnected from budgeting. The first two principles intend to correct the malpractice of focusing on cash management and neglecting management of other forms of public assets. They place fixed asset under the control of comprehensive financial management through budgeting. When

asset management is combined with financial management, asset allocation is more rational, asset utilization more efficient. The basic criterion for the third principle is to achieve consistence between accounting records and physical assets, between accounting records and asset cards, and between asset reports and accounting reports (MOF, 2006). The fourth principle is to centralize asset ownership and decentralize asset utilization and management. The purpose is to enhance accountability of asset management and improve efficiency of asset utilization.

Institutional Framework of State Asset Management

Institutional evolution of state-owned asset management in administrative units and public institutions experienced ups and downs. Since 1998, MOF has taken charge of formulating regulations on management of state-owned assets used and controlled by administrative units and institutions, and supervises the implementation of these regulations. At subnational levels of government, department of finance is granted power to enact regulations and supervise management of state-owned assets in administrative units and public institutions.

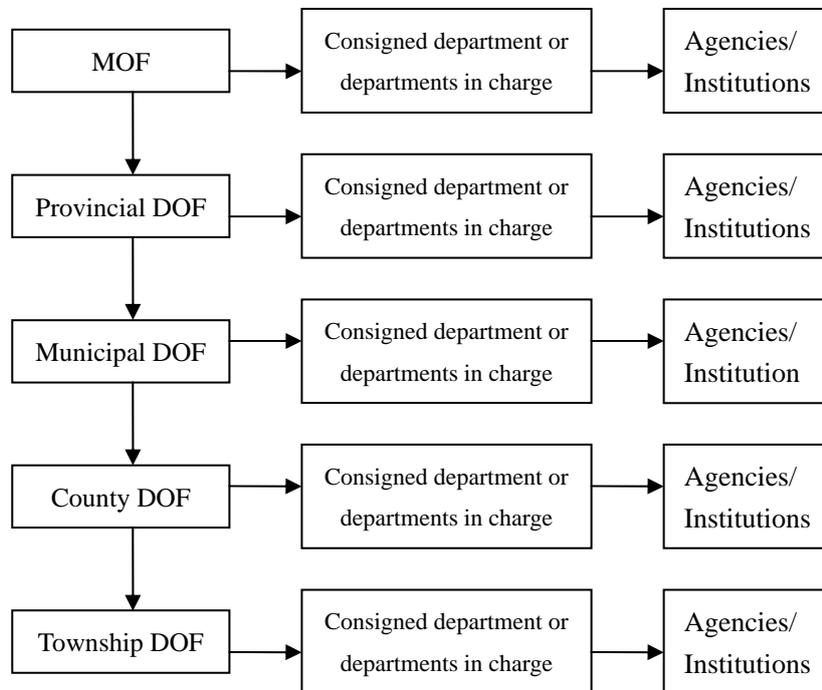
Currently, in the central government, Government Offices Administration Bureau of the State Council (GOAB) has the obligation of managing state-owned assets controlled by departments and institutions under the State Council. At the level of provincial government, out of thirty-one provincial units, twenty-nine have located the authority of state-owned asset management in department of finance; twenty-four have established a dedicated bureau to take charge of state-owned asset management in their provincial government agencies (Li et al, 2005). Authorized the centralized possession of all property assets at the same level of government, the dedicated bureau implements asset allocation, examines and approves of property acquisition and disposition, and manages proceeds from surplus disposition (Development & Research Center, 2008a).

Taking into account legal and regulatory requirements and institutional structures, the management of state-owned assets involves various entities, like legislature, financial department that

implements supervision, departments in charge of particular areas, and agencies and institutions as state-owned asset users. Legislature at each level of government examines and approves budget for state-owned asset acquisition. In addition, legislature has legal authority to supervise activities of the executive branch, including all government agencies and institutions.

In the executive branch, department of finance at any level of government is in charge of compiling budget. It has the authority to examine and coordinate the budget request of individual government agencies and institutions for acquiring state-owned assets included in budget draft. Government departments in charge of particular areas and agencies under their jurisdiction implement laws enacted by legislature and rules and regulations issued by financial departments of the same and higher level of governments. Generally, this three-level of state-owned asset management is comprehensively administered and supervised at each of five levels of government throughout the country. This is illustrated in Table 2.

Table 2 Executive State-Owned Asset Management Framework



*DOF means department of finance

Source: MOF, 2006

STATE-OWNED ASSET MANAGEMENT PRACTICES IN CHINA

Information System of State-Owned Asset Management

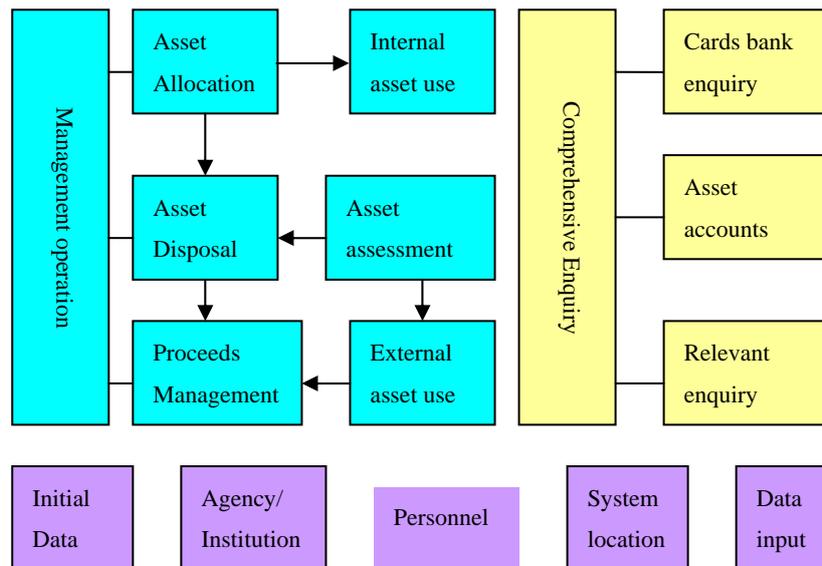
Establishment of Information System. Both “Interim Methods of State-Owned Asset Management in Administrative Units” and “Interim Methods of State-Owned Asset Management in Public Institutions” require that financial departments, government agencies and public institutions establish and improve the asset management information system, and computerize information of assets timely into the system so as to implement dynamic management of assets and carry out asset accounting and information reporting. The interim measures also mandate that government agencies and public institutions regulate and improve asset management through asset allocation, utilization, disposition, and property rights and proceeds management. Accordingly, government agencies and public institutions at all levels of government have established information systems of assets with their own characteristics and put these systems into use.

The current asset management information system takes into account characteristics of individual institutions. It integrates into a whole an individual institution’s financial management, physical asset management, value management, budget management and centralized payment, and government procurement. The system also achieves the objective of full life-cycle management through tracking important links, such as asset allocation, acquisition, utilization, disposition, maintenance, reporting, and examination and approval.

The asset management information system works for three types of users—institutions that use assets, departments in charge of assets, and departments of finance. Owing to the differences of these three types of information users, asset management information system has been designed in two different versions. The version for administrative units and public institutions provides a daily asset

management platform for asset users. The basic functional module is shown in Figure 1.

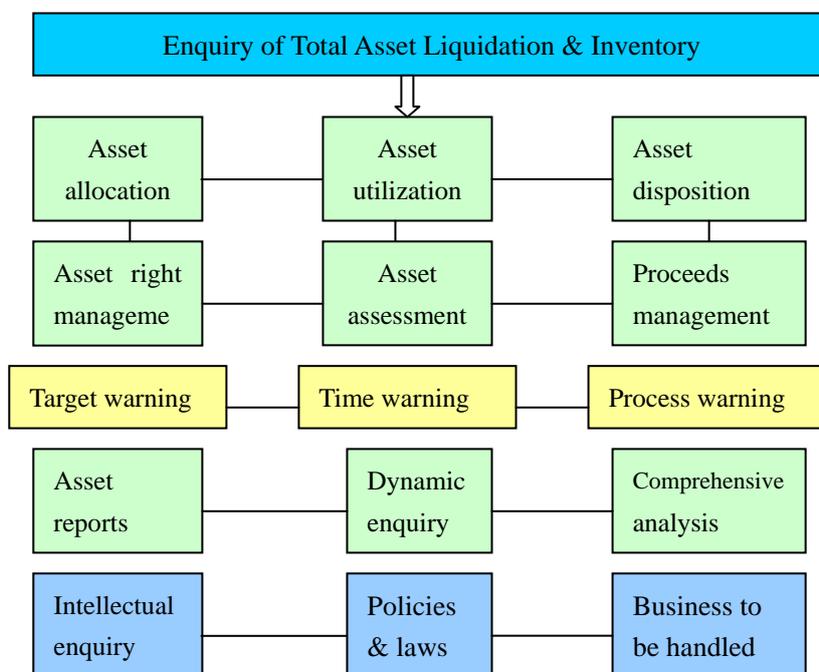
Figure 1 Asset Management System for Administrative Units and Public Institutions



Source: MOF. (2009). Introduction to Asset Management System for Administrative Units and Public Institutions.

The version for department of finance and departments in charge of assets serves as a platform through which the information users implement dynamic supervision over the use of assets, approve and monitor asset allocation and disposal in administrative units and public institutions. The basic functional module is shown in Figure 2.

Figure 2 Asset Management System for Departments of Finance and Departments in Charge of Assets



Source: MOF. (2009). Introduction to Asset Management System for Administrative Units and Public Institutions.

Basic asset data are essential for decision making in the process of state-owned asset management. They are the basis for determining acquisition and disposal of an individual asset as well as asset allocation between government agencies and institutions. Basic asset data are obtained mainly through asset inventorying, asset registration, and asset valuation.

Asset Inventorying. Asset inventorying includes inspection of the basic situations, account inventorying, property inventorying, verification of profit and loss in case of asset disposal, and management system improvement. It provides basic information for state-owned asset managers in administrative units and public institutions to rationally allocate budget for asset acquisition, accurately evaluate an individual institution's performance of asset management through cost-effective analysis, audit the use of budget,

and evaluate the financial structure of government. Asset inventorying contributes to a sound asset management system to achieve the objectives of reasonable asset allocation, clear rights and responsibilities, scientific and standardized management.

MOF organized and implemented asset inventorying nationwide from December, 2006 to July, 2007, with emphasis on inventorying fixed assets, external investment, and proceeds of state-owned assets.⁸ The results of asset inventorying reflected the structure of state-owned assets in individual government agencies and institutions. The results also provided a basis for asset budget and allocation, and financial management. The asset inventory provided guiding principles for solving problems of asset management and maximizing value potential of state-owned assets.

Asset Registration. Asset registration is a behavior that the state registers its assets controlled and used by administrative units and public institutions. The purpose of the asset registration is to clarify the property relationships between the state and administrative institutions, to legalize ownership or change of ownership of state assets, and to institutionalize identification of property assets. When administrative units and institutions apply for registration of property rights, the department of finance or the authorization department approves the application and issues "Property Registration Certificate of State-Owned Assets in Administrative Units/Public Institutions," which certifies the state's ownership as well as the administrative institution's right to possession and usufruct of the assets registered. When annual inspection and reconstruction, asset disposition, external investment, lease, loan and guarantee are implemented, the administrative unit or public institution registered has to produce the "property registration certificate" to prove its possession of the assets. In addition, the departments of finance at all levels regularly check up the asset registration and effectively perform their supervisory duty.

Asset registration confirms each of asset management entities' rights and responsibilities, which keeps them accountable for their performance. It also prevents assets from loss after they are registered and regularly inventoried, and maintains the integrity of

state-owned assets. In addition, asset registration urges administrative units and institutions to exploit the facility of assets, thus cutting down the government's running costs.

Property Asset Valuation and Assessment. Asset valuation is essential to improve the state-owned asset management system. First of all, as a means of monitoring the expenditure of the department of finance, asset valuation and assessment helps enhance the transparency of government's budget outlays. Then, it contributes to the establishment of the government's fiscal performance and financial budget management system. On the basis of asset valuation, the economical efficiency and effectiveness can be evaluated, thus improving the operation efficiency and curbing the excessive expansion of government expenditure. Finally, asset valuation is a technical support to government capital budget (Zhou, 2009).

Both "Interim Methods of State-Owned Asset Management in Administrative Units" (Article 36) and "Interim Methods of State-Owned Asset Management in Public Institutions" (Article 38) require that asset valuation and assessment be implemented under certain circumstances. Some of these circumstances include obtaining assets with no original documents, auctioning assets, transferring assets with compensation, and trading state-owned assets.⁹ In these circumstances, evaluation and assessment must be implemented by qualified institutions. Projects of asset valuation and assessment must be approved and recorded by departments of finance and departments in charge of assets.

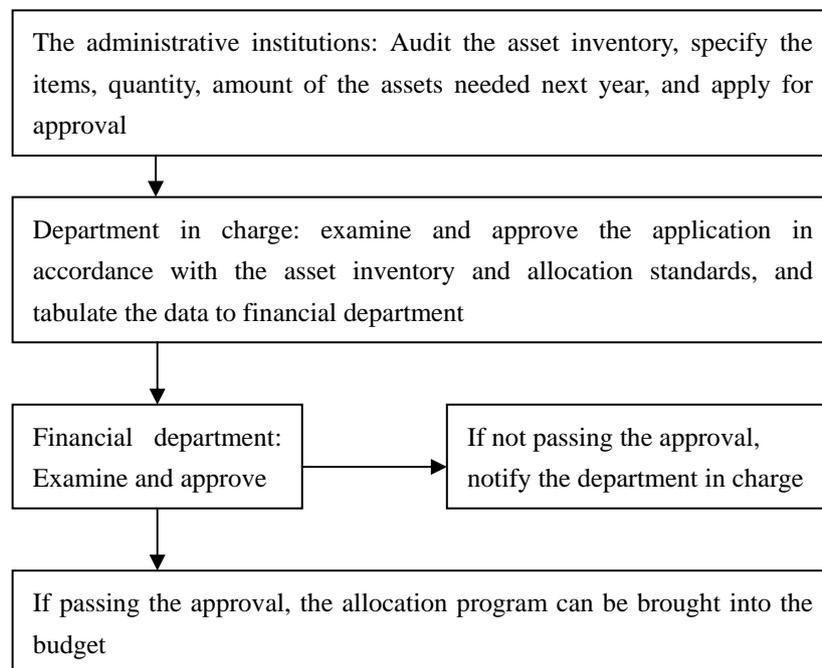
Acquisition, Holding, and Disposition of State-Owned Assets

Asset Acquisition. In China, state-owned assets are acquired through purchasing, transfer among agencies or from higher level of government, and donation. To a large extent, asset acquisition is a process by which government allocate assets among departments and agencies in accordance with laws, rules, and regulations. "Interim Methods of State-Owned Asset Management in Public Institutions" (Article 12) requires that asset allocation has to apply to certain premises. For example, the existing assets cannot meet the needs for asset applicants to perform functions; applicant institutions cannot

share the needed assets with other institutions; assets allocation cannot be replaced by purchasing goods and services from market or the purchasing cost is too high.

Asset allocation has to comply with strict approval system. Procedures of examining and approving asset allocation through budgeting are demonstrated by Figure 3.

Figure 3 Procedures for Asset Allocation Examination and Approval



Currently, asset acquisition that conforms to the standards of government procurement is implemented through the system of government procurement. After the promulgation and implementation of “The Government Procurement Law” (GPL), China has established a government procurement system with Chinese characteristics and harmonization with international norms. In accordance with GPL, all goods and services that are listed in the Centralized Prochasing Catalogue or whose value of procurement is above a certain threshold shall be purchased through purchasing agents, i.e., centralized purchasing institutions as nonprofit

organizations (Article 18, GPL).

Custodian Responsibilities for State-owned Assets. Public assets can be put into use after registration and accounting procedures. However, custodian responsibilities for asset must adhere to several principles. Firstly, priority of management is given to fixed assets, which take the majority of the state-owned assets. Secondly, the modes of utilizing public assets are restricted. “Interim Methods of State-Owned Asset Management in Administrative Units” and the “Surety Law” prohibit administrative units from using state-owned assets under their control for surety and for-profit business. Instead, “Interim Methods of State-Owned Asset Management in Public Institutions” permits institutions to use assets under their control for external investment, lease, loan, and surety based on feasibility studies (Article 21). Thirdly, holding of state-owned assets must adhere to internal control requirements. Some of these requirements include regularly inventorying assets and keeping records in account books and registration cares consistent with physical assets.

Disposal of State-owned Assets. Asset disposal is a procedure by which administrative units and public institutions transfer or cancel the property rights of assets they possess and use in an open, fair and impartial manner. Specifically, disposal of state-owned assets includes sale, trading, donation, transfer, replacement, loss reporting, and retirement.

Disposal of property asset follows strict approval procedures. Assets must be examined and evaluated before disposal projects are approved by department of finance. Asset sale and trading can be implemented by means of auction, bidding, and bulk transfer. “Interim Methods of State-Owned Asset Disposal Management in Central Public Institutions” requires that central public institutions sell or remise or transfer assets through property rights transfer agencies, securities exchange system, and agreement, among other approaches allowed by laws and regulations. Generally, public asset trading has a trend of marketization (Lu, 2009). Moreover, the management of asset disposal proceeds follows the policy of separate control of revenues and expenditures.

Financial Accounting and Reporting of State-Owned Assets

China has started to reform financial management in administrative units and public institutions since 1990s. National People's Congress amended the "Accounting Law" in 1999. MOF has enacted a number of regulations to adapt financial management to arising needs and general practices of asset management in developed nations.¹⁰ These rules and regulations have redefined the purpose, principles and processing methods of accounting, types of financial reports, as well as the requirements of accounting subjects. Based on cash reporting basis, MOF has established three channels, i.e., budgetary reporting, accounting report, and financial statement, to keep administrative units and public institutions accountable for their state-owned asset management.

Budgetary reporting is a process by which government at different levels makes a plan to allocate public resources. From perspective of state-owned asset management, administrative units and public institutions annually inspect asset inventory and examine asset structure in the process of budget preparation. Through budgetary reporting, department of finance controls budget for additional asset acquisition, and provides funds needed for managing fixed assets. Moreover, budget performance evaluation, together with accounting reports and financial statement, provides further information concerning the effectiveness of state-owned asset management. Accounting reports and financial statement may provide information regarding how to improve social effect and economic benefits of public resources.

Supervision and Legal Obligation

Department of finance and departments in charge of assets at different levels of government implement direct supervision over state-owned asset management in administrative units and public institutions. Auditing departments, social entities, and citizens also participate in supervision over state-owned asset management. The supervision is comprehensive and dynamic, involving every aspect of state-owned asset management. In accordance with both "Interim Methods of State-Owned Asset Management in Administrative

Units” (Article 48) and “Interim Methods of State-Owned Asset Management in Public Institutions” (Article 50), supervision over state-owned asset management shall be implemented internally and externally by different actors in the pre- and post-stages and whole process of a specific event.

STATE-OWNED ASSET MANAGEMENT MODELS IN CHINA

In China, the state is the only owner of state-owned assets, with the State Council as its representative. Government at each level supervises the management of state-owned assets while administrative units and public institutions actually control and utilize state-owned assets (MOF, 2006). Currently, three management models are widely adopted by government throughout the country. One model is to establish a dedicated division within department of finance to take charge of state-owned asset management in administrative units and public institutions at the same level of government. This dedicated division does not specifically manage the assets controlled by government agencies and public institutions. It manages asset inventory, examines and approves budget request for asset acquisition and asset disposition. Asset users are in charge of comprehensive management process. This is basically a decentralized mode in which state-owned assets are managed.

A second model is that department of finance consigns state-owned asset management to departments in charge of particular areas, such as state administration of taxation, security department, and the customs. These agencies have a great quantity of state-owned assets and special features of using and managing property assets. On the other hand, they attach importance to asset management and have expertise for and a set of rational regulations on asset management.

A third model, which is mainly advocated by municipal government, adopts centralized management. A municipal government establishes a dedicated asset management agency. The agency takes control of real properties under jurisdiction of local government. It manages the real properties by providing services, maintenance and repair. The agency acquires assets and allocates the assets among departments

and institutions according to actual needs. It also manages asset leasing for department and agencies. In addition, the agency implements asset disposal projects after approval by department of finance and municipal government office. Proceeds from asset management are submitted to department of finance. In some cases, a landlord-tenant relationship is established between the asset management agency and government agencies and institutions that utilize state-owned assets (Development & Research Center, 2008b).

Under either model, certain arrays of state-asset management are privatized. Currently, private businesses are consigned to carry out construction, repairs and maintenance of state-owned property assets and deliver services for particular public facilities. These services and repairs must be purchased through government procurement system if their value reaches the required level set by government. In addition, private businesses are also entrusted to implement asset valuation, auditing, and mediation of disputes. Therefore, privatization is an indispensable means in state-owned asset management (MOF, 2006).

CHALLENGING PROBLEMS AND POSSIBLE SOLUTIONS

Since Chinese government has implemented reform of state-owned assets, NPC has passed fundamental laws and MOF has enacted relevant regulations to regulate state-owned asset management the countrywide. Provincial and local governments have issued a great variety of rules and regulations on management of assets under their control. Basic institutional framework of asset management has been established at each level of government. MOF has created software of management to help local government establish state-owned asset inventory and information system. However, with state-owned asset management as an emerging field, Chinese government is still facing a number of challenging issues in the practice of managing state-owned assets. These issues are briefly discussed below.

Firstly, management responsibility is not clear. In many cases, asset possession right is not clear between departments and agencies. On surface, responsibility for state asset management is overlapping. However, because management responsibility is not combined with

possession rights, state-owned asset management is not implemented as an obligation of a certain agency or institution. To solve this problem, government should not consider state-owned assets as free good. Instead, government needs to develop and implement a cost-effective mechanism of asset evaluation. When assets are managed by individual departments and agencies, asset management performance needs to be linked to budget in the upcoming fiscal year. Supervision of asset management should be strictly implemented to prevent illegal behaviors during state-owned asset management.

Secondly, management priority is displaced. Current asset management focuses on acquisition but neglects management of tangible assets throughout life cycle (MOF, 2006). Centralized asset management may be an appropriate solution to this problem. In this case, individual departments do not have to exert efforts to obtain budget for real property assets. Nor do they have obligation to manage the real estates they use. If individual departments manage the assets under control, department of finance as the major supervisor of asset management should develop and implement a mechanism of strict supervision over state-owned assets throughout life circle.

Thirdly, current rules and regulations on financial management have deficiencies. Accounting reporting does not take into account depreciation of fixed assets. Accounting report on cash rather than on accrual basis distorts financial supervision over asset management and fails to engender rational decision making on the side of asset managers. To overcome these deficiencies, Chinese government needs to reform accounting system and financial reporting to improve effectiveness of real property asset management.

Fourthly, management performance evaluation system has not been established. Government needs to develop a mechanism to evaluate asset management performance in administrative units and public institutions. Performance evaluation can be combined with budget for capital assets.

Finally, there is serious loss of state-owned assets in the process of asset utilization and disposition. To resolve this issue, government

must establish an effective risk prevention mechanism. For one thing, government needs to establish a comprehensive self-insurance program to protect state-owned assets against accidental damage. For another, government must establish a control mechanism to prevent state-owned asset from illegal use and illegal disposal. Moreover, supervision over state-owned assets must focus on both revenue and expenditure on one side and status of physical assets on the other side.

It should be noted that Chinese government is exerting great efforts to establish a state-owned asset management system with its own characteristics. The current system is still in its infancy and is evolving. However, once state-owned asset management reform is initiated, government will target at the challenging issues and improve the management system to achieve its goals in producing public goods and delivering public services.

NOTES

1. Public assets in China are categorized into state-owned assets, which belong to the state and are owned by all citizens nationwide, and collective-owned assets, which belong to a particular collective and are owned by citizens in that collective.
2. The IASB Framework for the Preparation and Presentation of Financial Statements, paragraph 49.
3. The FASB Concepts Statement No. 6, Elements of Financial Statements, paragraph 25.
4. This definition is identified in Article 3 of “Interim Methods of State-owned Asset Management in Administrative Units” and Article 3 of “Interim Methods of State-Owned Asset Management in Public Institutions.”
5. Financial Regulations in Administrative Units of 1998 require that assets whose unit value is above certain standard, whose life of use is over one year, and whose physical state is kept unchanged during life of use be identified as fixed assets, including houses and buildings, general facilities whose unit value is above RMB 500 (approximately \$73 by currency rate in 1998), specialized facilities whose unit value is above RMB 800 (\$117), cultural relics, exhibits, and books, among other fixed assets. Current assets refer to assets

that can be exchanged into cash within one year or whose life is less than one year. Intangible assets are long-life assets that are controlled by a government agency or institution, intangible, and provide certain rights.

6. In China, land is either state-owned or collective-owned. According to Law of Land Administration of People's Republic of China, expropriation of primary farm land, whatever size, arable land other than primary farm land over 35 hectares, other hand over 70 hectares must be approved by the State Council. The maximum time of land use for construction and for industrial purposes is respectively seventy years and fifty years, according to Transient Rules on Grant or Transfer of Land Use in Towns and Urban Area of People's Republic of China, 1990.

7. In 1993, the Commission of Development and Reform enacted Regulations on Separating Government and CPC Agencies from Affiliated Economic Entities, which requires agencies of CPC and government to be disconnected from the economic enterprises affiliated to them.

8. The results of state-owned asset inspection demonstrated that, as of December 31, 2006, the total amount of assets value of assets controlled by China's administrative units and institutions was \$1,144 billion, with total net assets of \$759 billion, which accounts for 35.14% of total assets. The value of assets controlled by administrative units accounted for 25.63% of the total assets, that of public institutions 74.37% of the total. Classified by administrative levels, central government controls 15.24% of total state-owned assets, provincial government 26.26%, prefectural government 21.76%, and county government and township 36.74%. In the view of asset composition, current assets, fixed assets, external investment and intangible assets respectively accounted for 37.75%, 52.19%, 2.14%, and 1.09%.

9. Special circumstances under which assets need to be evaluated and assessed include restructuring the whole or part of the institution to enterprises, external investment with non-monetary assets, merger, division, and liquidation of the institutions, leasing the whole or part of the assets to non-state enterprises, and handling assets involved in litigation.

10. Financial and accounting rules and regulations enacted by MOF since late 1990 include “Accounting Regulations for Administrative Units,” “Accounting Standards for Administrative Units,” “Financial Rules for Administrative Units,” “Accounting Regulations for Public Institutions,” “Accounting Standards for Public Institutions,” and “Financial Rules for Public Institutions.”

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Appendix 1 Regulatory Framework of State-Owned Asset Management in Administrative Units and Public Institutions

